

SECU 05041737 Washington, D.C. 20549

MISSION SEC MAIL

OMB APPROVAL
 OMB Number: 3235-0123
 Expires: October 31, 2004
 Estimated average burden
 Hours per response: 12.00

SEC FILE NUMBER
 8-66501

MAR 31 2005
 WASH. D.C. 20549

NE 4-7-05

ANNUAL AUDITED REPORT FORM X-17A-5 PART III

FACING PAGE
Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2004 AND ENDING 12/31/2004
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Capstone Trading, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

44 Wall Street, 4th Floor

(No. and Street)

New York

New York

10005

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Chad Kirschenblatt

(212) 232-1442

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Kempisty & Company, Certified Public Accountants, P.C.

(Name - if individual, state last, first, middle name)

15 Maiden Lane, Suite 1003

New York

New York

10038

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED

APR 11 2005

THOMSON FINANCIAL

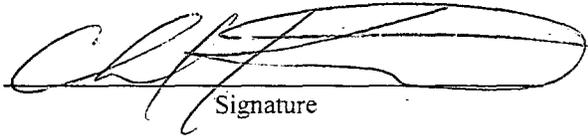
FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2).

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

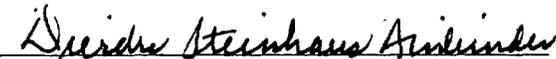
I, Chad Kirschenblatt, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Capstone Trading, LLC, as of December 31, 20 04, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Signature

Controller & FINOP

Title

DIERDRE STEINHAUS AINBINDER
Notary Public, State of New York
No. 01AI4899711
Qualified in Nassau County
Commission Expires July 6, 20 05


Notary Public

This report** contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of financial condition.
- (c) Statement of income (loss).
- (d) Statement of cash flows.
- (e) Statement of changes in stockholders' equity or partners' or sole proprietor's capital.
- (f) Statement of changes in liabilities subordinated to claims of general creditors.
- (g) Computation of net capital for brokers and dealers pursuant to Rule 15c3-1.
- (h) Computation for determination of reserve requirements pursuant to Rule 15c3-3.
- (i) Information relating to the possession or control requirements for broker and dealers under Rule 15c3-3.
- (j) A reconciliation, including appropriate explanation, of the computation of net capital under Rule 15c3-1 and the computation for determination of the reserve requirements under exhibit A of Rule 15c3-3.
- (k) A reconciliation between the audited and unaudited statements of financial condition with respect to methods of consolidation.
- (l) An oath or affirmation.
- (m) A copy of the SIPC supplemental report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent auditor's report on internal accounting control.
- (p) Schedule of segregation requirements and funds in segregation – customers regulated commodity futures account pursuant to Rule 171-5.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



CAPSTONE TRADING, LLC

**FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

**PERIOD APRIL 5, 2004 (DATE OF FORMATION) THROUGH DECEMBER 31, 2004
WITH SUPPLEMENTARY REPORT
OF INDEPENDENT AUDITOR**

CAPSTONE TRADING, LLC

DECEMBER 31, 2004

INDEX

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF ASSETS LIABILITIES AND MEMBER'S EQUITY	2
STATEMENT OF INCOME AND EXPENSES	3
STATEMENT OF CHANGES IN MEMBER'S EQUITY	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-11
<u>SUPPLEMENTARY INFORMATION PURSUANT TO RULE 17a-5 OF THE SECURITIES EXCHANGE ACT OF 1934:</u>	
SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION	13
SCHEDULE II - COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION	14
SUPPLEMENTARY REPORT OF INDEPENDENT AUDITOR	16-17

KEMPISTY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, P.C.

15 MAIDEN LANE - SUITE 1003 - NEW YORK, NY 10038 - TEL (212) 406-7272 - FAX (212) 513-1930

INDEPENDENT AUDITORS' REPORT

To the Member of
Capstone Trading, LLC

We have audited the accompanying statement of assets, liabilities and members' equity of Capstone Trading, LLC as of December 31, 2004 and the related statements of income and expenses, members' equity and cash flows for the period April 5, 2004 (Date of formation) through December 31, 2004 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capstone Trading, LLC at December 31, 2004 and the results of its' operations and cash flows for the period April 5, 2004 (Date of formation) through December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kempisty & Company CPAs, P.C.

Kempisty & Company
Certified Public Accountants PC
New York, New York
March 28, 2005

CAPSTONE TRADING, LLC

STATEMENT OF ASSETS, LIABILITIES AND MEMBER'S EQUITY

DECEMBER 31, 2004

ASSETS

Cash	\$	94,353
Securities long, at market		99,604,735
Due from clearing broker		1,089,905
Interest and dividends receivable		118,376
Fixed assets, net		1,540
JBO investment		<u>10,000</u>
TOTAL ASSETS	\$	<u>100,918,909</u>

LIABILITIES AND MEMBERS' EQUITY

Securities sold, not yet purchased, at market	\$	95,719,580
Payable to clearing broker		2,676,357
Accounts payable and accrued expenses		146,066
Interest payable		<u>127,104</u>
TOTAL LIABILITIES		98,669,107
Commitments and Contingent Liabilities (Note 6)		
Member's Equity		<u>2,249,802</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$	<u>100,918,909</u>

The accompanying notes are an integral part of these financial statements.

CAPSTONE TRADING, LLC

STATEMENT OF INCOME AND EXPENSES

FOR THE PERIOD APRIL 5, 2004 (DATE OF FORMATION) THROUGH DECEMBER 31, 2004

Revenues:	
Principal trading	\$ 46,220
Interest and dividend income	1,377,313
Other income	<u>114,427</u>
Total Income	<u>1,537,960</u>
Expenses:	
Interest expense	897,529
Regulatory and exchange fees	314,480
Trader compensation	252,301
Trading expenses	242,309
Clearing fees	106,166
Seat lease and membership expense	83,460
Communications	80,956
Brokerage fees	69,144
Employee benefits	54,794
Office supplies and expenses	17,937
Miscellaneous	<u>331</u>
Total Expenses	<u>2,119,407</u>
Net loss	<u><u>\$ (581,447)</u></u>

The accompanying notes are an integral part of these financial statements.

CAPSTONE TRADING, LLC

STATEMENT OF CHANGES IN MEMBER'S EQUITY

FOR THE PERIOD APRIL 5, 2004 (DATE OF FORMATION) THROUGH DECEMBER 31, 2004

Member's equity at April 5, 2004 (date of formation)	\$	-
Capital contributions		3,417,249
Net loss		(581,447)
Capital withdrawals		<u>(586,000)</u>
Member's equity at December 31, 2004	\$	<u>2,249,802</u>

The accompanying notes are an integral part of these financial statements.

CAPSTONE TRADING, LLC

STATEMENT OF CASH FLOWS

FOR THE PERIOD APRIL 5, 2004 (DATE OF FORMATION) THROUGH DECEMBER 31, 2004

Increase (Decrease) in cash

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (581,447)
Adjustments to reconcile net income to net cash used by operating activities:	
Depreciation and amortization	
Changes in operating assets and liabilities:	
(Increase) in securities long, at market	(99,604,735)
(Increase) in due from clearing broker	(1,089,905)
(Increase) in interest and dividends receivable	(118,376)
Increase in securities sold, not yet purchased, at market	95,719,580
Increase in payable to broker	2,676,357
Increase in accounts payable and accrued expenses	146,066
Increase in interest payable	127,104
Total adjustments	<u>(2,143,909)</u>
NET CASH USED BY OPERATING ACTIVITIES	(2,725,356)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets	(1,540)
JBO investment	(10,000)
CASH USED BY INVESTING ACTIVITIES	<u><u>(11,540)</u></u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Capital contributions	3,417,249
Capital withdrawals	(586,000)
CASH PROVIDED BY FINANCING ACTIVITIES	<u><u>2,831,249</u></u>

NET INCREASE IN CASH 94,353

CASH - Beginning of year -

CASH - End of year \$ 94,353

The accompanying notes are an integral part of these financial statements.

CAPSTONE TRADING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 1- ORGANIZATION AND NATURE OF BUSINESS

Capstone Trading, LLC, a New York limited liability company (the "Company") is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the American Stock Exchange ("AMEX"), the Chicago Board Options Exchange ("CBOE"), the International Securities Exchange ("ISE") and the Boston Options Exchange ("BOX").

The Company is engaged in the activity of trading securities and futures.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

All short-term investments with an original maturity of three months or less are considered to be cash equivalents.

Concentration of Credit Risk

The Company is engaged in various trading activities in which counterparties primarily include broker dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

At December 31, 2004 the Company's clearing broker held net assets of \$2,298,703 on behalf of the Company.

Additionally, cash balances are held at a financial institution and may at times exceed the \$100,000 insurable limit. The Company believes it mitigates its risk by investing in or through major financial institutions. Recoverability is dependent upon the performance of the institution.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CAPSTONE TRADING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Securities and futures transactions and the related income and expenses are recorded on the books on a trade date basis.

Depreciation and Amortization

The cost of furniture and equipment is depreciated over the estimated useful lives of the related assets of five to seven years. Software is depreciated over 5 years. The cost of leasehold improvements is amortized over the lesser of the length of the related lease or the estimated useful life of the assets. Depreciation is computed on a straight line basis for financial reporting purposes and on an accelerated basis for income tax purposes. Leasehold improvements for income tax purposes are amortized in accordance with Internal Revenue Service regulations.

Comprehensive Income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 requires an entity to report comprehensive income and its components and increases financial reporting disclosures. This standard has no impact on the Company's financial position, cash flows or results of operations since no elements of the Company's comprehensive income exist other than the loss from operations.

Recent Accounting Pronouncements

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities. In December 2003, the FASB issued FIN No. 46 (Revised) ("FIN 46-R") to address certain FIN 46 implementation issues. This interpretation requires that the assets, liabilities, and results of activities of a Variable Interest Entity ("VIE") be consolidated into the financial statements of the enterprise that has a controlling interest in the VIE. FIN 46R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. For entities acquired or created before February 1, 2003, this interpretation is effective no later than the end of the first interim or reporting period ending after March 15, 2004, except for those VIE's that are considered to be special purpose entities, for which the effective date is no later than the end of the first interim or annual reporting period ending after December 15, 2003. For all entities that were acquired subsequent to January 31, 2003, this interpretation is effective as of the first interim or annual period ending after December 31, 2003. The adoption of FIN 46 did not have a material impact on the Company's results of operations or financial position.

CAPSTONE TRADING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Management believes that this statement did not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of the provisions of SFAS No. 150 did not have a material effect on the Company's financial position.

NOTE 3- INCOME TAXES

No provisions for federal and state income taxes are made in the financial statements as these taxes are the responsibility of the member under this form of organization.

NOTE 4- RECEIVABLE FROM BROKER-DEALERS AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to the Company's clearing organization, and others at December 31, 2004, consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Receivable from/payable to clearing broker	\$ 1,089,905	\$ 2,676,357

NOTE 5- SECURITIES OWNED AND SOLD, NOT YET PURCHASED

Marketable securities owned and sold, not yet purchased, consist of trading and investment securities at market values, as follows:

	<u>Owned</u>	<u>Sold, Not Yet Purchased</u>
Stocks, warrants and futures	\$ 99,604,735	\$ 95,719,580

CAPSTONE TRADING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 6- COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company shares office space leased by its Parent and reimburses the Parent for approximately one third of the cost.

Seat Leases

The Company has month to month seat lease agreements on both the CBOE and American Stock Exchange.

NOTE 7- NET CAPITAL REQUIREMENTS

The Company is a member of the American Stock Exchange and Chicago Board Options Exchange, and is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1. This Rule requires that the ratio of aggregate indebtedness to net capital may not exceed 15 to 1, and equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2004, the Company's net capital was \$557,009 which was \$457,009 in excess of its required net capital of \$100,000. The Company's debt-equity ratio was .4904 to 1.

NOTE 8- OFF BALANCE SHEET RISK

Pursuant to a clearance agreement, the Company clears its securities and futures transactions through a clearing broker. Under certain conditions as defined in the clearance agreement, the Company has agreed to indemnify the clearing broker for losses, if any, which the clearing broker may sustain from carrying these transactions initiated by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing broker monitor collateral on the transactions introduced by the Company.

CAPSTONE TRADING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 9- GUARANTEES

FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, requires the Company to disclose information about its obligations under certain guarantee arrangements. FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The maximum potential amount of future payments that the Company could be required to make under the indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

CAPSTONE TRADING, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE 9- GUARANTEES (continued)

Exchange Member Guarantees

The Company is a member of various exchanges that trade and clear securities and/or futures contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. While the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

SUPPLEMENTARY INFORMATION PURSUANT TO RULE 17a-5
OF THE SECURITIES EXCHANGE ACT OF 1934

CAPSTONE TRADING, LLC

**SCHEDULE I
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2004**

NET CAPITAL:		
Members' equity		\$ 2,249,802
Less non-allowable assets and deductions:		
Fixed assets, net	1,540	
JBO investment	<u>10,000</u>	
		11,540
Less: Haircuts on securities		<u>1,681,253</u>
NET CAPITAL		<u>\$ 557,009</u>
AGGREGATE INDEBTEDNESS, total liabilities		<u>\$ 273,170</u>
MINIMUM NET CAPITAL REQUIRED (6.67% of aggregate indebtedness)		<u>\$ 18,211</u>
MINIMUM NET CAPITAL DOLLAR REQUIREMENT		<u>\$ 100,000</u>
MINIMUM NET CAPITAL REQUIRED		<u>\$ 100,000</u>
EXCESS NET CAPITAL (\$557,009 - \$100,000)		<u>\$ 457,009</u>
PERCENTAGE OF AGGREGATE INDEBTEDNESS TO	\$ 273,170	
NET CAPITAL	<u>\$ 557,009</u>	<u>49.04%</u>

There are no material differences between the above computation and the computation included in the Company's corresponding unaudited form X-17A-5 Part II filing.

CAPSTONE TRADING, LLC

**SCHEDULE II
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2004**

The Company is exempt from the Securities and Exchange Commission Rule 15c3-3 and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers".

CAPSTONE TRADING, LLC

**INDEPENDENT AUDITOR'S SUPPLEMENTARY REPORT ON
INTERNAL ACCOUNTING CONTROL**

DECEMBER 31, 2004

KEMPISTY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, P.C.

15 MAIDEN LANE - SUITE 1003 - NEW YORK, NY 10038 - TEL (212) 406-7272 - FAX (212) 513-1930

Capstone Trading, LLC
New York, New York

In planning and performing our audit of the financial statements of Capstone Trading, LLC (the "Company") for the period April 5, 2004 (date of formation) through December 31, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission ("SEC"), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a) (11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraphs. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Capstone Trading, LLC

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2004 to meet the Commission's objectives.

This report recognizes that it is not practicable in an organization the size of Capstone Trading, LLC to achieve all the divisions of duties and cross-checks generally included in a system of internal control, and that, alternatively, greater reliance must be placed on surveillance by management.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, The Chicago Board Options Exchange, American Stock Exchange, International Stock Exchange, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Kempisty & Company CPAs, P.C.

Kempisty & Company
Certified Public Accountants PC
New York, New York
March 28, 2005